LOCAL GOVERNMENT IMPACTS OF THE PLACER COUNTY CONSERVATION PLAN

A Draft Report to

THE COUNTY OF PLACER

Prepared by

HAUSRATH ECONOMICS GROUP

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1212 BROADWAY, SUITE 1500, OAKLAND, CA 94612-1817
T: 510.839.8383 **F**: 510.839.8415

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INTRODUCTION

This report examines the impacts of the proposed Placer County Conservation Plan (PCCP) on local government, focusing on how changes in the permitting process for new development would affect local government roles and responsibilities, local government costs and revenues, and local economic development and housing affordability objectives. The report evaluates direct impacts on Placer County's General Fund—the primary source of discretionary county government spending—as well as indirect impacts that would follow as a consequence of any implications of the PCCP for economic development, housing development, and population and employment growth. The report includes discussion of how the proposed PCCP would affect the feasibility of new development and the amount and pace of development in the County. The report concludes by evaluating the proposed PCCP in the context of other infrastructure investments to accommodate growth, the value of projected new development, and the local land market.

In all of these evaluations, the conclusions depend on the underlying comparison. The impact of the proposed PCCP is defined by comparison to a baseline condition—referred to as "*status quo*" or the existing regulatory environment. The impact of the PCCP is **not** the impact of requirements that land development and related public projects consider threatened or endangered species and their habitats in project planning and compensate for potential losses sustained by species and habitats. Those requirements are already enforced in Placer County through local, state, and federal planning, environmental review, and permitting processes. The PCCP would replace these multiple processes with a simplified, comprehensive permitting process, centralized at the local government level. The PCCP would also designate a public agency implementing entity to acquire and manage reserve lands. Under the existing regulatory environment, mitigation land would be required, but no central authority would control long-term trusteeship and management of that land. The impact of the PCCP, therefore, is the **difference** in local government costs and revenues attributable to:

- replacing existing planning and permitting processes related to species and habitat and
- establishing a public agency implementing entity to oversee reserve acquisition, management, and monitoring, as well as overall PCCP compliance.

The next section of this report outlines the basis for 1) the difference between the PCCP and the existing regulatory environment and 2) the difference between proposed PCCP implementation and the case-by-case mitigation that would continue if the PCCP were not adopted. Evaluation of impacts for local government follows the description of the framework for the analysis.

FRAMEWORK FOR ANALYSIS

Understanding what the PCCP would mean for the development process

Identifying the impacts of the PCCP requires a baseline against which to make the comparison. As noted above, the comparison is **not** between habitat conservation planning and associated requirements and the **absence** of such planning, but between the existing regulatory environment in Placer County and what would be expected after implementation of the PCCP.

Figure 1 compares planning and permitting under the *status quo* without the PCCP to planning and permitting under the PCCP and also identifies responsibilities for mitigation obligations. For each permitting scenario, the check marks indicate what would be required of land development proponents under each regulatory regime, from pre-submittal local planning requirements through environmental review, state and federal requirements, local entitlement processing, and construction and post-construction activities.

Many of the steps in the process would be required in either case. The local planning process for pre-submittal documentation for general plan amendments or tentative map subdivisions would not change under the PCCP. Planning surveys for environmental resources, wetlands assessments, and CEQA environmental review would be require for general plan amendments and tentative map subdivisions. Where significant biological resources were identified, pre-construction surveys, plans for take minimization, and construction monitoring would be required under the PCCP as under the existing regulatory environment. Similarly, incidental take avoidance measures would be required in any case to protect site-specific resources.

The differences would be in the process to obtain state and federal permits. The *status* quo imposes substantial costs (both financial resources and time) on project proponents to mitigate impacts to endangered species and their habitats. Under the PCCP, one locally-issued permit and the aquatic resources letter of permission (CARP permit) would replace five separate state and federal permits. Under the PCCP, after evaluation of existing resources, mitigation obligations would be satisfied by land dedication and/or payment of fees. There would be no need for negotiations and review by multiple local, state, and federal agencies. Compliance with the PCCP would also reduce the effort and time required for environmental review, since mitigation for impacts to species and habitats would be satisfied through PCCP compliance, rather than case-by-case review, comment, and negotiation.

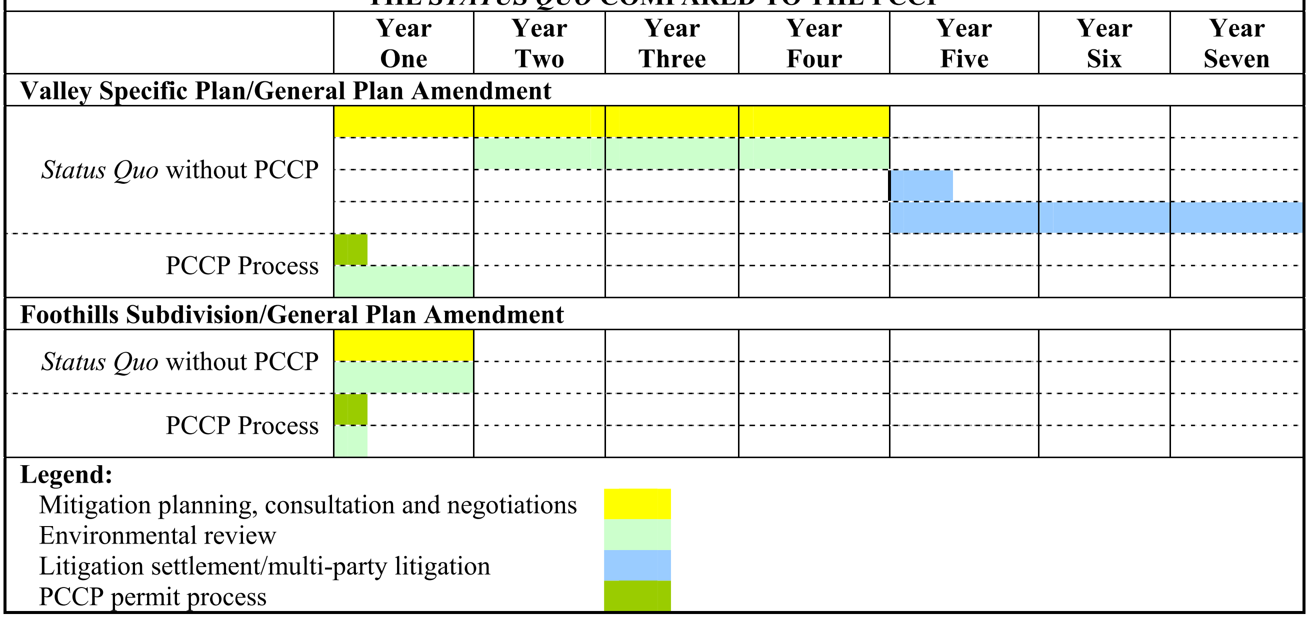
Another significant difference between the *status quo* and the proposed PCCP revolves around the cost to project proponents associated with litigation, liability, and uncertainty. Because of the complex set of existing state and federal laws and regulations, litigation over impacts to species and habitat has become a well-used and often successful tool in efforts to shape the amount, location, and configuration of new development in the Sacramento region. Implementation of the PCCP would reduce the threat of litigation because the inclusive planning process has incorporated potential litigants as stakeholders. Fulfilling PCCP requirements through land dedication and fees would also absolve individual project proponents of responsibility for post-construction monitoring and remediation, liability for meeting biological goals and objectives over the long term, and mitigation for future new listings or habitat designations. PCCP compliance would transfer those liabilities and responsibilities to the PCCP implementing entity, along with funding to discharge those obligations.

FIGURE 1
CHECKLIST FOR ILLUSTRATIVE LAND DEVELOPMENT PROPOSAL
THE *STATUS QUO* COMPARED TO THE PCCP

	STATUS QUO **NO PCCP**	**PROPOSED PCCP**
PLANNING & PERMITTING PROCESS		
Pre-Submittal		
Predevelopment	√	√
Tentative Map	√	√
Specific Plan	√	√
General Plan Re-zone	√	√
Environmental Review		
CEQA - Environmental Review	√	√
NEPA - FONSI (for CWA Section 401/4 related impacts)	√	
Planning surveys for biological resources	√	√
State/Federal Requirements		
Wetlands assessment	√	√
California Endangered Species Act (CDFG)	√	
Section 1600-1616 Streambed Alteration Agreement (CDFG)	√	
Federal Endangered Species Act Section 7 (USFWS and NOAA Fisheries)	√	
Federal Clean Water Act (Section 404) - Individual Permit or Nationwide Permit for Wetland Fill (USACE)	√	
Regional Water Quality Control Board for Federal Clean Water Act (Section 401) - Water Quality Waiver/Certification	√	
PCCP Permit		√
CARP Permit/Letter of Permission		√
Entitlement Processing		
Placer County Tree Permit	√	
Grading Permit	√	√
Construction/Post Construction		
Pre-construction surveys	√	√
Plan for take minimization	√	√
Construction monitoring	√	√
Exposure to litigation	√	
Post construction monitoring & remediation	√	
MITIGATION OBLIGATIONS		
Incidental take avoidance (take minimization)	√	√
Land dedication / in-lieu fee	√	√
Purchase of mitigation credits	√	**Obligations of the PCCP**
Restoration, creation, and enhancement and performance monitoring	√	
Monitoring (biological monitoring of reserve system)	√	
Mitigation required for new listings or subsequent critical habitat designations (no surprises)	√	
Liability for meeting conservation goals and objectives	√	

Figure 2 provides a graphic illustration of the potential differences in time required for the planning and permitting process under the *status quo* and under the proposed PCCP. Timelines are illustrated for major Valley development projects that normally require a multi-year planning and environmental review process due to numerous issues in addition to species and habitat concerns, as well as for more simple residential subdivisions in the Foothills. In both cases, replacing the *status quo* with a predictable, consistent, equitable, and streamlined permitting process would significantly reduce the time required to obtain state and federal permits; would reduce the scope of environmental review, comment, and response related to species and habitat issues; and would potentially eliminate time-consuming litigation. These time savings translate to cost savings: lower holding costs, planning costs, and legal costs. Moreover, development financing would likely be more readily secured if the uncertainty surrounding interpretation and imposition of state and federal endangered species requirements could be resolved early on through a PCCP permit.

FIGURE 2
TIMELINES FOR PLANNING AND PERMITTING
THE *STATUS QUO* COMPARED TO THE PCCP



Understanding what the PCCP would mean for local government roles and responsibilities

The PCCP would designate a public agency or joint powers authority of participating agencies to take responsibility for creating the PCCP reserve system, implementing mitigation and conservation strategies, and undertaking long-term stewardship of PCCP reserve lands. From the perspective of local government, this is would represent a substantially greater role in implementing the intent of state and federal species and habitat laws and regulations than is the case under baseline conditions. The PCCP implementing entity would be directly involved in administration and oversight of the PCCP permitting process, reserve acquisition and management, and biological monitoring. The implementing entity would have significant financial management responsibilities as well.

The PCCP would allow for partnerships with entities that are already in the business of acquiring and managing land for habitat and open space resources, albeit in an *ad hoc* way. State and federal agencies, private nonprofit land trusts, and individual local governments or public agencies could own and manage land that was part of the PCCP reserve system. Private mitigation banks could offer mitigation credits for sale that would meet the terms of PCCP compliance requirements. Owners of agricultural lands that were part of the PCCP reserve system could manage their properties in a manner consistent with PCCP biological goals and objectives.

Compared to the baseline situation for meeting the terms of local, state, and federal regulations affecting species and habitat, the PCCP would likely result in a larger reserve system, a new administrative structure, decision-making authority, increased staffing, and new revenue sources for carrying out this comprehensive program. This report assesses the implications of these differences for local government costs and revenues.

FISCAL IMPLICATIONS OF THE PCCP

Fiscal impact analysis evaluates the effects of the PCCP on the Placer County operating budget—on the costs of providing County services and on the revenues available to fund those services. As noted above, the framework for the fiscal impact analysis is that mitigation for impacts to endangered species and habitats is required under both baseline conditions as well as under the PCCP. The difference is how mitigation is accomplished, the scope of the conservation effort, and the local government role in managing mitigation and conservation activities. In addition, conditions under the PCCP would include state and federal support for public conservation efforts—primarily acquisition of reserve lands beyond what would be expected on the basis of mitigation from private development and public projects alone.

Impacts are categorized as direct and indirect. Direct impacts are specific costs and revenues associated with implementation of the PCCP and changes in the revenue base associated with the PCCP reserve acquisition program. Indirect impacts are secondary effects associated with differences in property values over the long term and economic development impacts of the PCCP.

Implementation costs are estimated and are a reasonable reflection of the scale of the land management effort

The annual costs to implement the PCCP include costs to administer the program, manage reserve lands, and monitor progress toward biological goals and objectives. The cost estimates that have been prepared are based on assumptions about staffing and/or contracting needed to accomplish the following: identifying and executing land acquisitions; collecting and managing impact fee and other revenue; preparing applications for state and federal funding; developing annual budgets and financing strategies; preparing reports to wildlife agencies; managing public participation; implementing land management, restoration, and biological monitoring programs; tracking program compliance; and maintaining required records. These tasks would be the responsibility of the implementing entity—a joint powers authority of the Permittees, including Placer County, or, by default, the individual jurisdictions acting separately.

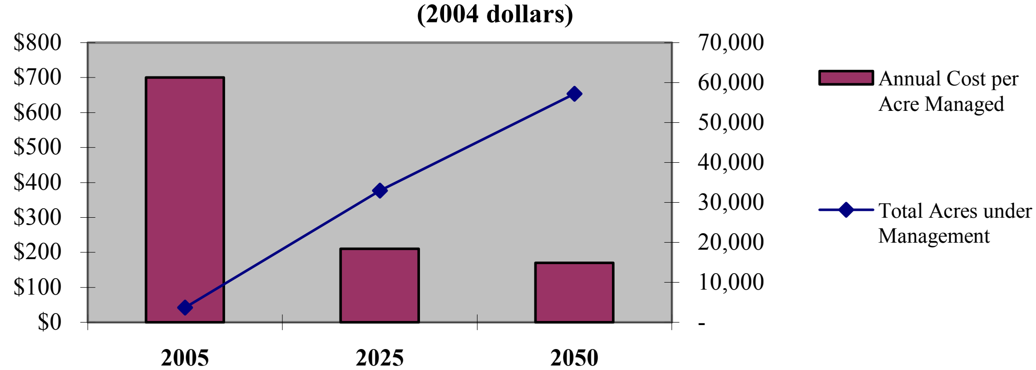
The annual costs are a function of the types of activities required and the amount of land managed. **Table 1** summarizes current estimates of on-going costs in 2005, 2025, and 2050. To begin, at start-up, total costs of about $2.5 million per year average about $700 per acre managed. By 2025, the mid-point of PCCP implementation, it would cost about $200 per acre to manage PCCP lands. This would amount to about $6.8 million per year when 33,000 acres would be under management. By 2050, per-acre land management costs would be lower (about $170 per acre) and the on-going annual costs to implement the program, including managing 57,000 acres of reserve lands, would be about $9.6 million.

TABLE 1
ESTIMATES OF PCCP ANNUAL ON-GOING COSTS IN 2005, 2025, AND 2050 (2004 dollars)

Annual On-going Costs	2005	2025	2050
Management of Local Mitigation Land	$1,117,000	$3,504,000	$6,865,000
Management of State/Federal Conservation Land	1,407,000	3,273,000	2,702,000
Total Annual PCCP Costs	**$2,524,000**	**$6,777,000**	**$9,567,000**
Acres Under Management			
Local Mitigation Land	1,635	17,511	41,734
State and Federal Conservation Land	2,015	15,450	15,450
Total Acres Under Management	**3,650**	**32,961**	**57,184**
Total Annual Cost per Acre Managed	**$700**	**$210**	**$170**

As illustrated in **Figure 3**, costs increase over time as more reserve land is acquired and more staffing is required to manage program implementation and manage the growing reserve land base. Costs per acre decline over time, however, as the level of activity decreases after initial start-up, acquisition, and restoration are completed and the managing entity gains experience and begins to realize efficiencies and economies of scale.

FIGURE 3
Estimate for PCCP Planning:
Acres Managed and On-going Annual Cost per Acre
2005, 2025, and 2050
(2004 dollars)



The annual costs are the responsibility of the local government implementing entity and cover the costs of staff, contractors, equipment, and overhead. The cost estimates provide for an administrative staff of four to five full time employees and a field and technical staff ranging from 7-10 full time employees in the first ten years of the program to 18 full time employees by the time all reserves are acquired and under management. Costs also cover contractors providing some land management services as well required legal, financial, real estate, and biological monitoring services. Costs for public safety services provided to reserve lands (law enforcement and fire protection costs) are also included in PCCP budget.

Although a financing plan has not been determined, these costs are expected to be funded by covered activities and other new funding sources. The details of the PCCP financing plan will determine the extent to which PCCP costs might ultimately require some commitment from the Placer County General Fund.

Long-term costs are uncertain but appear appropriate when compared to costs incurred by other land management entities

Estimating the costs of a complex program such as the PCCP involves numerous assumptions and the use of average cost estimating factors for a variety of administrative, land management, and monitoring activities. The costs estimates for such a long-term planning program are by nature not precise; adding a significant contingency factor provides a hedge against underestimates. The estimates are nevertheless subject to evaluation to indicate their utility and validity for the purposes of program and financial planning.

Research conducted for the PCCP cost analysis indicates that the resultant estimated average annual costs per acre managed are valid estimates for planning purposes. Operating costs for agencies that manage open space lands are sensitive to the number of acres managed and the degree of public access and recreational use as well as the degree of habitat management obligations. For five Bay Area open space and/or park districts that own and manage from 3,100 to 94,500 acres, annual operating costs ranged from $1,500 per acre to $168 per acre. Documentation reports for two other multi-species habitat conservation and natural communities conservation planning efforts in California estimate on-going management costs at $157 per acre (for 56,000 acres in Riverside County) and $123 per acre (for 31,000 acres in Contra Costa County).

[**Note to reviewers:** Some time ago (January 2005), I discussed management cost factors with Mary Dietrich at Facility Services and provided her with cost factors and cost model documentation to review, as well as County park inventory sheets for organizing actual cost data. I did not receive a response. It would be good to include some comments from Facility Services in this report.]

Costs for some implementation activities could escalate, and other implementation strategies could serve to reduce costs or generate offsetting revenues

The detailed cost estimating exercise conducted for the PCCP provides up-front insights into aspects of program implementation that might require more resources than estimated. The process of acquiring reserve lands is one area in particular where there might be extraordinary costs associated with any protracted negotiations or complicated real estate transactions. Other areas of concern regarding potential sources of on-going cost escalation are financial management and providing adequate financial reserves to cover remedial measures indicated by adaptive management findings or changed circumstances.

By contrast to the *ad hoc*, case-by-case mitigation program currently in place, however, the PCCP provides the additional capacity to generate offsetting revenues and implement generalized land management policies to minimize on-going public agency cost exposure.

Income-generating agricultural operations could continue on much PCCP reserve land, either through leaseholds or by re-selling easement-encumbered land back to the private sector. Hunting clubs might also be compatible with some PCCP reserves. These management options available to the PCCP implementing entity would provide a cushion against General Fund exposure. Furthermore, one-time fees or annual assessments on covered activities to fund PCCP management costs could be set to cover costs of public safety services to PCCP reserves, thereby reducing what would otherwise be a General Fund obligation.

A balanced financing plan will limit exposure of the Placer County General Fund

The PCCP permit holders will be responsible for ensuring that mitigation is accomplished for private development activity and public projects, and that funding sources are adequate to manage and monitor conservation lands and conservation activities in perpetuity. The PCCP financing plan must identify funding sources and financing mechanisms that will cover the one-time costs associated with local mitigation and public conservation, as well as on-going costs for land management and plan administration. The financing plan will identify and estimate revenues new revenue specific to the PCCP, such as habitat mitigation or development impact fees, special taxes, or benefit assessments, in addition to state and federal funds and plan-generated revenues such as lease revenue. The intent throughout the planning process has been to design a financing plan that does **not** rely on existing County General Fund revenues.

This can be accomplished by adhering to the following principles:

- Allocate local mitigation costs to private and public development in proportion to impacts
- Adjust mitigation or impact fee amounts to keep pace with changes in costs
- Accept appropriate dedication of reserve land
- Assess on-going costs to covered activities using a combination of impact fees for an endowment, annual assessments, or special taxes
- Include mitigation cost obligations in project budgets for County-sponsored covered activities and seek to cover these costs through new revenue sources (e.g., include PCCP compliance costs in facility cost estimates used to derive countywide capital facilities fees and traffic impact fees, and earmark funds from a proposed transportation sales tax to cover habitat mitigation costs)
- Pursue new broad-based special revenue sources to fill funding gaps
- Maximize private management of conservation lands through grazing and other agricultural leases, re-sale of easement-encumbered conservation land, and partnership with conservation banks, mitigation banks, and other potential land management partners such as the Placer Land Trust
- Encourage state and federal acquisition and management of public conservation lands

The PCCP offers advantages in cost sharing and cost allocation

One of the significant benefits of the PCCP over *status quo* conditions for mitigating impacts to species and habitat would be the ability of the public agency implementing entity to tap diverse sources of public funding. This is evident in state and federal agency commitments to the public conservation component of the PCCP. Placer County has been successful to date in competitive funding for both land acquisition and planning funds offered by state and federal sources, attracting over $5.2 million in state and federal grant funds. Accounting for 40 percent of total costs to date, this outside funding has leveraged local sources to achieve natural resource goals and objectives that might otherwise languish for lack of funding. State and federal dollars have funded planning and acquisition for both Placer Legacy and the PCCP. Because a comprehensive approach to habitat planning and protection has broadly recognized benefits to species, natural communities, and the general public, allocations of state and federal taxpayers dollars are available. This type of cost sharing is not possible with individual players acting in isolation.

Furthermore, the PCCP has the potential to be a vehicle for allocating the costs of habitat conservation more broadly, both over time and over a more diverse local funding base. The public financing mechanisms outlined in the financing options memorandum could have several cost benefits. Public debt financing would allow up-front land acquisition, limiting the impact of land value escalation over time on overall costs. Other forms of public financing would allow costs to be spread over time and over a broader funding base, thereby reducing the up-front obligations of land developers. In some plans, a portion of local mitigation cost is explicitly assigned to taxpayers more generally. The rationale for a broader cost allocation can be compelling:

- Existing development has contributed to the decline in habitat values and the need for species listings and should bear some of the cost associated with species conservation and recovery efforts.
- Many of the quality of life and economic benefits associated with large-scale habitat conservation accrue generally to all residents, businesses, and visitors.
- Spreading some of the costs beyond new development benefits the consumers of new development: newcomers (both residents and businesses), as well as those moving within the county—especially the new households formed by children of existing residents and older households seeking more manageable housing options.

<u>The PCCP and baseline conditions would result in similar outcomes for the property tax revenue base</u>

Acquiring existing and potential future development rights in land to preserve its natural resource values results in result in changes to otherwise expected local government revenues derived from the property tax and real property transfer tax (documentary transfer tax). The mechanisms for these changes are the same under both the PCCP and baseline conditions for protecting the natural resource values of land in perpetuity. The PCCP, however, would most likely result in a larger reserve system and more reserve land transactions. In the following description of consequences for the property tax revenue base, the PCCP is presumed. Similar changes in land status and in the tax base would occur under baseline conditions.

The characteristics of source lands for reserves and the management and use options for reserve lands influence the outcome for the property tax revenue base

The PCCP reserve system would be built by transferring land or some of the rights associated with land to the PCCP implementing entity or appropriate partner. The magnitude of the impact on local public revenue would depend on the specific conditions of the land transferred, as well as on the subsequent disposition and use of that reserve land.

Figure 4 outlines the changes in land status occurring over the course of PCCP implementation that would influence local public revenues derived from property tax and property transfer tax. The source of PCCP reserve land is expected to be privately-owned land designated for agricultural use in the *Placer County General Plan* and zoned for agricultural use. Much of the PCCP reserve land is currently used for agricultural purposes—as cropland or grazing land. PCCP reserve land would be acquired by a public agency (the PCCP implementing entity or any one of its constituent agencies, state government, or federal government) or designated private nonprofit partner. Acquisition of fee title interest in the land (all of the rights of land ownership) or an easement interest (a portion of the bundle of rights of land ownership) would occur as the public agency or private, nonprofit partner accepted dedications from private landowners of fee title interest or easements or purchased those interests.

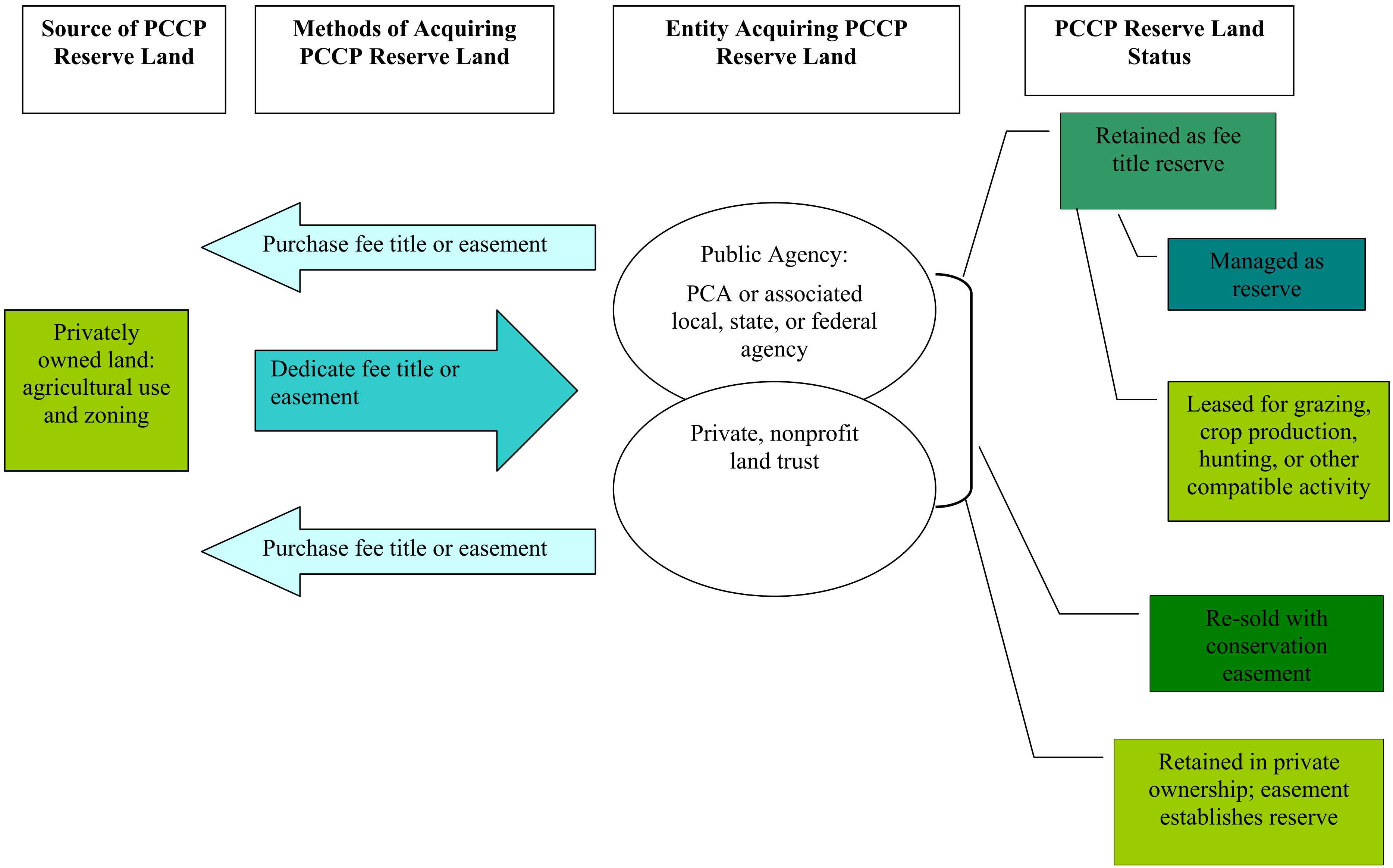
Subsequently, as illustrated in **Figure 4**, there would be a number of options for reserve land. Reserves owned in fee title could be retained in public agency or private nonprofit ownership and managed as reserve land without any revenue-generating activity. Alternatively, those lands could be leased to private operators for grazing, crop production, hunting, or other business enterprise compatible with the reserve. Lands acquired in fee title could also be sold back to the private sector for agricultural or other compatible use, after a PCCP reserve easement were placed on the title. Lands from which PCCP reserve easements were acquired would remain in private ownership, with use restricted by the terms of the easement.

Such transactions would change the status of the reserve land for the purposes of property tax assessment. Interests in property—fee title or less-than-fee title—that are transferred from private ownership to public or private nonprofit ownership become exempt from property taxes. (Property held by a private nonprofit entity registered as a 501(c)(3) organization qualifies for tax-exempt status under the welfare provisions on the Revenue and Taxation Code, assuming the entity maintains its qualifying mission and the property is used in a manner consistent with that mission.) On the other hand, income-producing activity, such as crop production, grazing, or hunting, conducted by leaseholders on publicly-owned or otherwise tax-exempt land, would be taxable as a possessory interest and assessed on the basis the income generated by the activity.

The magnitude of the difference in property tax revenue otherwise expected would therefore depend on both pre-reserve characteristics of the property and the status of the property as part of the PCCP reserve system. **Figure 5** illustrates the important considerations.

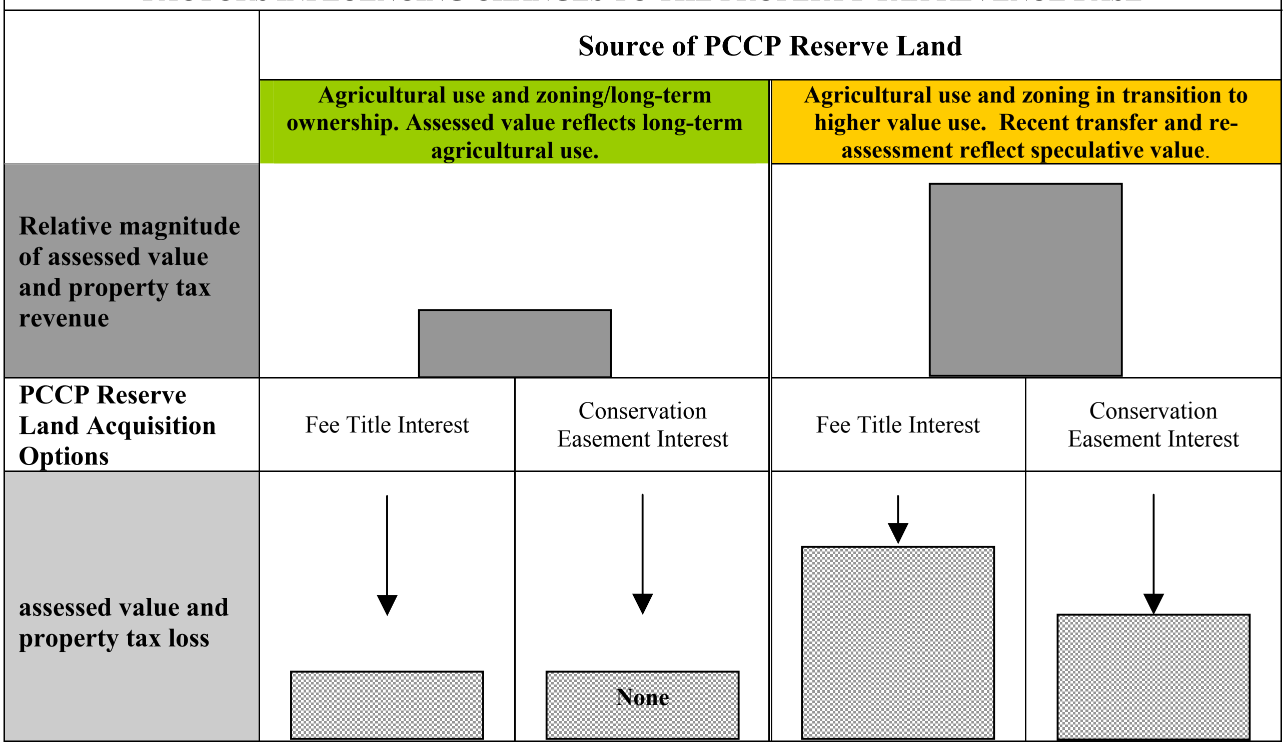
For likely sources of PCCP reserve land, there would be two primary pre-reserve distinctions. In the first instance, the potential reserve land would be agriculturally-zoned land in long-term agricultural use and ownership. The assessed value of this land would be relatively low, reflecting its long term agricultural use and the absence of recent sales transactions that would trigger re-assessment. The second case of potential reserve land would be agriculturally-zoned land in transition to a higher value use, evidenced by a recent sales transaction at a value substantially higher than justified by agricultural income. The assessed value of this property would be higher than that of the first property; re-assessment at the time of the recent sales transaction would account for the speculative value evident in the sales price.

FIGURE 4
CHANGES IN LAND STATUS TO CREATE PERMANENT CONSERVATION RESERVES



Transfer of fee title interest in either of these properties (by dedication or by purchase) to the PCCP reserve system (public agency or private nonprofit ownership) would result in the full loss of the property tax revenue otherwise flowing from the property. The revenue loss would be greatest for the property already in transition, where recent private transactions reflected some speculative value. The initial revenue loss might not be very great for property that had been in long-term agricultural use and ownership. That loss would be magnified over the longer-term, however. An opportunity cost of the transfer to the PCCP reserve system would be the loss of potential revenue increases attributable to property turn-over and speculative land acquisitions that might otherwise be expected sometime in the future in areas that have long-term strong growth potential.

FIGURE 5
FACTORS INFLUENCING CHANGES TO THE PROPERTY TAX REVENUE BASE



These revenue losses would be offset by introducing leasehold interests or other compatible revenue-generating rights on properties that remained in public agency or private nonprofit ownership. Leasing reserve property for agricultural operations (crop production or grazing) or hunting or other compatible activity would result in assessment of those possessory interests. In these cases, the loss of property tax revenue would be limited to the loss associated with speculative value, either already evident in recent transactions, or potential in the absence of a resource protection program such as the proposed PCCP.

Transfer of a conservation easement for either of these properties would reduce the loss of property tax revenue. Fee title interest would remain private and, therefore, taxable. For the property in long-term ownership, restricting the property to agricultural use in perpetuity by means of some form of easement would not make any difference in the basis of the property for the purposes of property tax assessment. Initially, there would be no change in property tax revenue flowing from this property. The longer-term opportunity cost of removing the potential for future turnover and speculation would remain, however. Attaching a reserve easement to the higher-value speculative property would result in some initial loss of property tax revenue, as the fee title interest remaining in private ownership would be reassessed at the lower agricultural production value.

Mitigation banking is another option for meeting reserve needs that does not reduce the property tax revenue base

Mitigation banks could be established in Placer County to satisfy some of the PCCP reserve needs. One of the first mitigation banks in the state was established in Placer County; all of the credits created at that bank have been sold to satisfy project compliance requirements for impacts to wetlands and oak woodlands. The newer Orchard Creek conservation bank continues to offer vernal pool preservation credits. Such privately-owned or privately-operated mitigation banks generate property tax revenue. Creating reserves for the purpose of selling mitigation credits results in property tax assessment as new construction. The assessed value declines as the mitigation credits are sold; technically, that value is transferred to the developing property that benefited from the purchase of the credits. Until all mitigation credits are sold, this treatment of mitigation banks can result in a substantial increase in assessed values and property tax revenues compared to a property's pre-bank status.

The PCCP would have an indirect impact on local public revenue

The implications of the PCCP for economic development are described in the following section. Generally, compared to the *status* quo, the PCCP would enhance opportunities for sustainable economic growth. There would be indirect fiscal benefits as a result.

Over the long term, the benefits of an enhanced development climate and a regional preserve system resulting in higher environmental quality would be likely to translate to higher property values and property tax revenues as well as more public revenues associated with visitor spending than would be the case under baseline conditions. A more efficient permitting process would reduce delays in the development process so that public revenues associated with new development would be realized sooner than would otherwise be the case. The multiplier effect of higher levels of state and federal spending in Placer County would also contribute to higher levels of local public revenue.

IMPLICATIONS OF THE PCCP FOR ECONOMIC DEVELOPMENT IN PLACER COUNTY

The PCCP would generate economic development benefits for Placer County

The species and habitat issues facing new development in Placer County are not unique to the County. These same regulatory requirements are faced by land development activities throughout the market area. In fact, recent analyses of proposed critical habitat designations for vernal pool species identified costs in Sacramento County far exceeding those identified in Placer County. In this complex regulatory environment, the PCCP would represent a comprehensive solution to thorny issues, thereby enhancing the competitive position of Western Placer locations.

There are a number of other factors--labor force, transportation, and proximity to production inputs and markets that businesses evaluate when comparing location options. Similarly, households evaluate neighborhood factors, commute options, and job opportunities in their housing choice decision, in addition to housing cost and environmental factors. Any advantages attributable to the PCCP would not be significant enough to outweigh advantages of locations offering lower labor costs, a better trained workforce, better transportation systems, proximity to important markets or production inputs, or still lower land, non-residential space, or housing costs. Under the PCCP, however, firms or households facing relatively equal location options on all other factors might choose Western Placer County over other locations that had not resolved regional habitat planning issues in a comprehensive way.

Furthermore, quality-of-life and scenic rural character continue to define Placer County's appeal to many segments of the housing market and to some employers. Because the PCCP would require mitigation for cumulative impacts and the scope of PCCP conservation efforts would extend beyond development-related mitigation, a more extensive and varied reserve system is anticipated than would be achieved under baseline conditions. More of the natural assets that are the basis for attracting population and economic growth to Placer County would be protected, and there would be benefits to environmental quality. In addition, as the regulatory component of the acclaimed Placer Legacy program, the PCCP would extend the economic development impacts of Placer Legacy to the land development process by providing a more consistent and predictable development environment and a streamlined process.

While many other market factors are more significant to the overall pace of development than is planning for species and habitat conservation, it is likely that the development process would become increasingly protracted without the PCCP. Under a continuation of the existing regulatory regime and planning process, land developers would be less able to respond to market opportunities and to adapt projects to changes in market conditions.

The total amount of growth and development activity in the unincorporated Western Placer County and the City of Lincoln would continue to be guided by existing and future general plan documents of the local jurisdictions. The PCCP would not make a difference in the **total** amount of growth and development allowed by those documents, only in the pace of that growth, and, potentially, in its configuration.

Finally, higher levels of state and federal spending in Placer County are likely following implementation of the PCCP. The flow of state and federal dollars into the local economy would have direct and indirect economic impacts—stimulating business activity, jobs, income, and consumer spending. An article in the August 2004 issue of *California Coast and Ocean*, a quarterly publication of the California Coastal Conservancy, described the "restoration economy" generating jobs for scientists, engineers, heavy equipment operators, and laborers. Much of the business of the restoration economy is conducted by small businesses. This economic sector is expanding based on state and federal funding of both large and small projects. The economic impact extends to employment and income benefits in both the private and public sectors.

IMPLICATIONS OF THE PCCP FOR HOUSING AFFORDABILITY IN PLACER COUNTY

Demand is the primary determinant of housing price. Demand is a function of population growth (migration is particularly important in Placer County), employment growth, and increases in income. The elasticity of demand—the ability and willingness of households to choose substitute housing elsewhere in the market area—is also a key determinant of how the housing market will adjust to changes in any of the factors of production.

The PCCP would not directly affect the supply of land for housing. Local general plans designate land for residential development, and existing state and federal regulations (the *status quo* permitting process) determine the availability of land with respect to species and habitats. Because the PCCP would not supplant either of these determinants of land supply, it would not make a difference in the cost of land for housing relative to demand.

The impact of the PCCP on the critical habitat designation for vernal pool species has not yet been resolved but could prove an exception to this general statement. If the PCCP were to result in lifting the critical habitat designation, the PCCP would increase the potential supply of land for housing in Placer County. However, since much of this land is not designated in local General Plans for housing and since lifting the critical habitat designation would be predicated on assurances that the PCCP would provide comparable mitigation for impacts to vernal pool species and habitats, then the overall effect of a "potential" increase in supply might be difficult to detect in the market.

The PCCP would reduce some housing production costs and could indirectly improve housing affordability in Placer County. The PCCP would reduce the time and costs of the planning and permitting process for new development and would reduce the amount and cost of litigation faced by most major new development proposals. In a competitive market, assuming housing producers are charging what the market will bear, these cost reductions would not necessarily translate to lower housing prices, however. They might result in changes in the housing products offered and the pace at which products were brought to the market. More lower-priced units than otherwise expected might be the result. The potential for the amenity and quality of life benefits of the PCCP compared to baseline regulatory conditions to result in stronger demand and higher property values over the long term would offset some of these affordability impacts in some segments of the market.

The most important way for local government to influence affordable housing is to plan for an adequate supply of land for dwellings of many types. Affordable housing can be provided despite supply constraints imposed by local land use plans or environmental regulations if there are complementary local policies and programs to expand the supply of higher density, lower cost housing. This means zoning for higher density housing, multi-family housing, mixed use development, and housing near places of work. It also means implementing inclusionary housing and workforce housing policies, combining requirements with incentives such as density bonuses and alternatives to on-site mitigation. More generally, local governments can periodically review policies and programs with an eye to reducing regulatory barriers to increasing housing supply in areas appropriate for urban development.

PERSPECTIVE ON PCCP COSTS

Investment in the PCCP is comparable to investment in other backbone infrastructure

The PCCP, with potential one-time costs on the order of $1.3 billion over 50 years, represents an investment in the "green infrastructure" required to accommodate new development and population and economic growth in Placer County. As such, the level of investment in the PCCP is best evaluated in the context of other infrastructure investments that will be required of public and private interests to meet the needs of growth. These infrastructure investments include:

- Transportation facilities such as highways, interchanges, regional roads, and transit
- Schools
- Libraries
- Courts and detention facilities
- Government office buildings
- Park and recreation facilities
- Water, wastewater, solid waste, and flood control facilities

Table 2 lists the costs of some of these infrastructure investments required to serve growth in Western Placer County. Placer County's recently adopted *Regional Transportation Plan* identifies almost $1.7 billion in costs for regional roads, transit capital projects, and bicycle and pedestrian improvements in Lincoln and West Placer County. This includes the costs of such high priority projects as the Lincoln Bypass, SR 65 widening, Placer Parkway, and I-80 capacity improvements. Placer County's capital improvement plan shows an investment of almost $620 million in local government facilities, many of which will be developed in Western Placer to better serve the centers of population growth in the County. [**Note to reviewers:** It would be great to be able to add City of Lincoln Capital Facilities costs, including cost estimates for the proposed water treatment plant. I was not able to track these down.] Other investments in backbone infrastructure to serve this area include expansion of water supply, distribution, and treatment facilities; expansion of wastewater and solid waste facilities; as well as flood control improvements to support the provision of land to accommodate growth. Costs for some of these projects total about $650 million. A more complete accounting of costs would include longer-term regional water supply and wastewater solutions likely to be required, adding significantly to total costs. The addition of estimated PCCP expenditure of $1.3 billion brings the total investment to over $4.2 billion.

Figure 6 shows the contribution of each element to the total infrastructure investment. The PCCP is one element of a comprehensive package of infrastructure improvements that would enable population growth and economic development to proceed in western Placer County.

[**Note to reviewers:** Another approach would show the total "burden" of all impact fees and infrastructure assessments for representative residential and non-residential projects in Placer County and Lincoln and discuss a hypothetical PCCP fee in this context. In a 2002 Economic Analysis of the Natomas Basin Habitat Conservation Plan, the proposed habitat mitigation fees represented very small components of the overall backbone infrastructure costs represented by fees, assessments, and taxes. The work to develop the accounting of fees, assessments, and taxes faced by representative projects should be coordinated with the work of the Western Placer Financing study and perhaps with the help of participants in the proposed PCCP Finance Committee.]

TABLE 2
COST ESTIMATES FOR REPRESENTATIVE INFRASTRUCTURE TO SERVE GROWTH IN WEST PLACER COUNTY

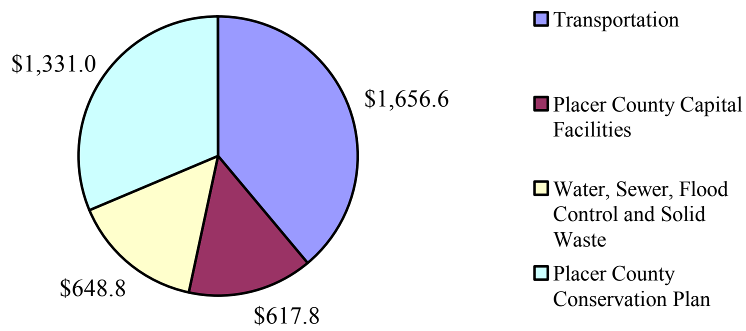
Transportation	(Millions of dollars)
Developer Funded Projects (Lincoln and Placer County)	189.5
Other Funded (non-transit)	351.2
Transit Funded projects	1.1
Unfunded projects	1,114.8
	$ 1,656.6
Placer County Capital Facilities	
Under Construction or Planned	563.5
Completed	54.3
	$ 617.8
Water, Sewer, Flood Control, and Solid Waste	
Pleasant Grove Wastewater Treatment Plant	179.8
Lincoln Wastewater Treatment and Reclamation Facility	85.0
Super-Sewer (Dept. of Facility Services)	220.0
American River Pump Project	34.0
Foothill Phase II Water Treatment Plant	100.0
Lincoln Area Water Treatment Plant	-
Miners Ravine Detention Basin	4.0
Materials Recovery Facility Expansion	26.0
	$ 648.8
Estimated One-Time Costs for PCCP	
Local Mitigation	976.0
Public Conservation	355.0
	$ 1,331.0
TOTAL	**$ 4,254.2**

NOTE: These costs represent only a portion of the infrastructure investment required to serve growth in Western Placer County. Other costs would include schools, parks and recreation facilities, City of Lincoln capital facilities, and in-tract infrastructure for specific plans (typically paid for by developer funding).
[1] For comparability to the PCCP, this accounting of transportation projects from the *Placer County Regional Transportation Plan* does not include projects in non-participating cities (Auburn, Loomis, Rocklin, and Roseville).
SOURCES: Placer County Transportation Planning Agency, *Placer County Regional Transportation Plan, May 2005; Placer County Department of Facility Services, Capital Improvements Plan*, April 2005; Placer County Water Agency; Nevada Irrigation District; Western Placer Waste Management Authority.

The projected value of new development supports investment in species and habitat conservation at the level indicated by estimates for the PCCP

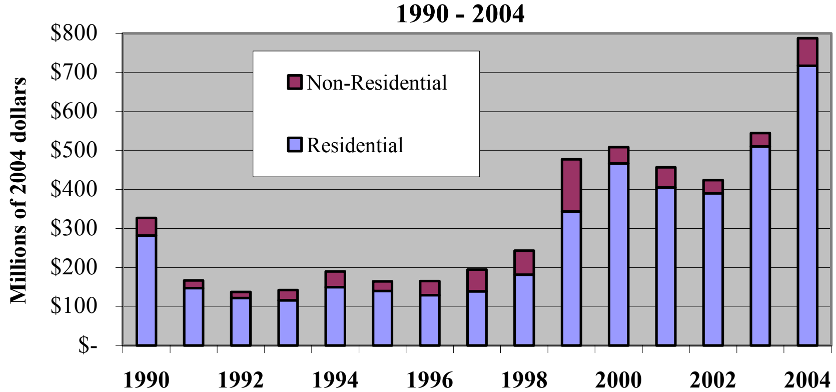
The dollar investment associated with the PCCP is not large in the context of the investment in new residential and non-residential construction to accommodate growth in Western Placer County through 2050. **Figure 7** illustrates trends in building permit values for unincorporated Placer County and the City of Lincoln between 1990 and 2004. The dollar values are adjusted for inflation and therefore reflect real increases in both the **amount** of new development and the **value** of development. Residential permit value are for new single-family and multi-family housing; non-residential permit values cover new private commercial and industrial buildings as well as private hospitals, schools, other institutional, and miscellaneous non-residential structures. Permits for alterations, additions, and conversions are not included in either case.

FIGURE 6
Components of Backbone Infrastructure to Serve Growth in Western Placer County
(millions of dollars)



The dramatic increases in recent years reflect the surge of new development in these parts of Western Placer County. (Note that building permit data for non-participating cities is not included in this summary and the total for the unincorporated area includes development in the Tahoe Basin and other parts of unincorporated Placer County outside Western Placer. The majority of the unincorporated area permit value most likely represents development activity in Western Placer.)

FIGURE 7
Trends in Building Permit Values
Unincorporated Placer County and the City of Lincoln
1990 - 2004



SOURCE: Construction Industry Research Board

Over the 15-year period, building permit values for new construction averaged about $330 million per year. During the most recent five-year period, building permit values averaged over $540 million per year. Assuming future development maintained this pace and consistency, the total value of development expected could range from $15 billion to almost $25 billion from 2005 to 2050. (The range reflects calculations using the lower longer-term annual average and the higher annual average based on the most recent period.) The local mitigation component of the PCCP (cost estimate at $976 million) is four – seven percent of this potential permit value.

The PCCP will not have a negative impact on the feasibility of new development

For potential new development projects that could accommodate the largest mounts of future growth in unincorporated Western Placer County and the City of Lincoln, the PCCP would represent an improvement over the state and federal regulatory requirements that would otherwise affect land development activities. As described in the beginning of this report, the PCCP would replace a generally protracted project planning process, involving negotiations with multiple regulatory agencies, substantial uncertainty, and the prospect of litigation, with a simplified, uniform, planning process at the end of which obligations associated with mitigating impacts to species and conserving habitat would be met by land dedication and/or payment of mitigation/development impact fees. While the direct costs to provide on-site and/or off-site mitigation might not be that different under the PCCP and *status quo* regulatory environment, the difference in time and costs associated with negotiations, uncertainty, and liability could be significant. By reducing these real costs, the PCCP would enhance the feasibility calculation for land developers.

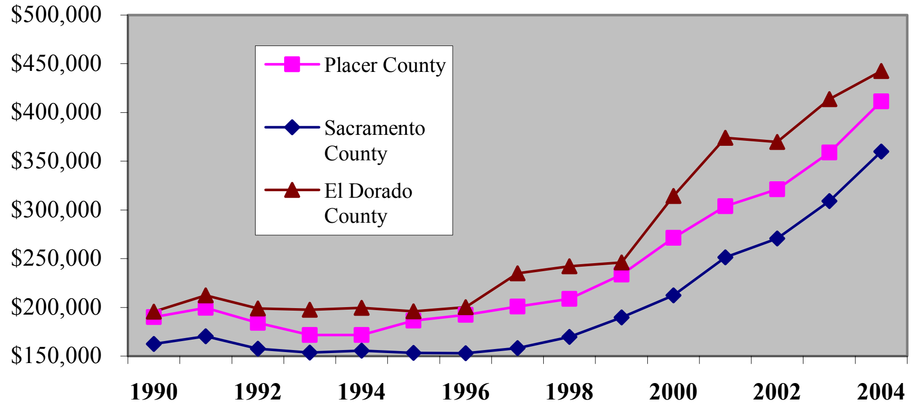
Furthermore, while the PCCP would remove species and habitat issues from the list of potentially contentious land planning questions that can delay the project approval process, there are a number of other significant issues that most major development proposals in Western Placer County have to resolve. These include planning for transportation improvements, water supply, and wastewater treatment, in addition to the overarching questions of development financing and infrastructure financing. The PCCP is only one of a number of substantial planning issues that influence the timing and feasibility of greenfield development.

The land cost basis and market values for new development influence feasibility more than species and habitat conservation requirements

Among the key ingredients of the development equation in the Sacramento region in 2005 are land prices and high and increasing values for new development (particularly housing). The history of development patterns in the region has supported speculation in agricultural land at the fringe of the metropolitan area; as a result, long-time landowners have a very low cost basis in land that may eventually be urbanized. The rapid increase in housing market values over the last several years has significantly enhanced potential profits from new development, even after accounting for costs required to gain entitlements for development. This calculation applies as well to long-time owners of rural residential or suburban infill properties.

Figure 8 illustrates trends in new home sales prices in selected counties in the regional market area between 1990 and 2004. On average, the market price of new housing more than doubled over the 14-year period, increasing at an annual rate of six percent per year. The average compound rate of increase has been double the rate of inflation for this period. Data for the 2000 through 2004 period show an annual rate of increase from nine percent per year in El Dorado County to 14 percent per year in Sacramento County. New house prices increased at the rate of 11 percent per year in Placer County between 2000 and 2004.

FIGURE 8
Trends in New Home Prices in the Placer County Market Area
(prices not adjusted for inflation)

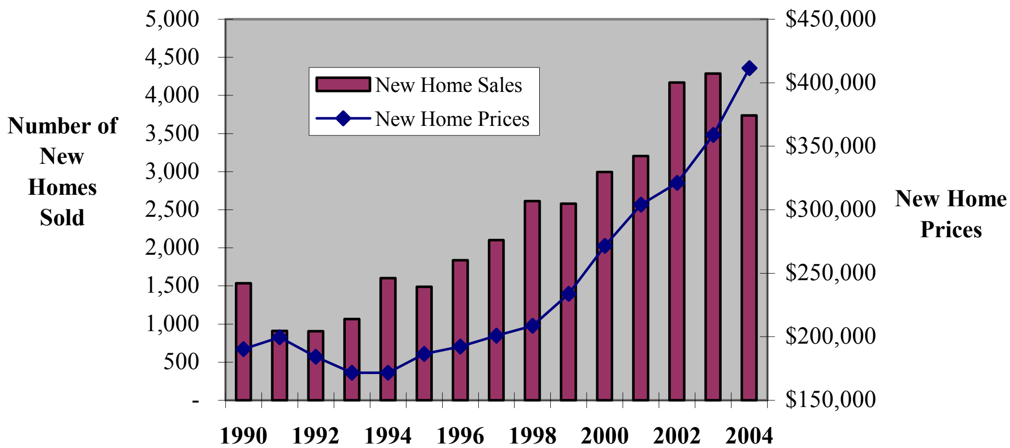


SOURCE: Real Estate Research Council of Northern California, *Northern California Real Estate Report* , First Qtr. 2005 and 3rd Qtr. 2004, based on data from First American Real Estate Solutions.

A recent proposal in Sacramento County would have tapped this large profit margin. According to news reports, landowners in unincorporated North Natomas would donate **20 percent** of their net proceeds from selling entitled land (after parcel maps were approved) to provide funding for a sports arena and other community benefits. This donation would be in return for a **faster** entitlement process. For these North Natomas landowners, there was substantial room in the feasibility equation after considering the difference between their cost basis in what is currently farm and ranch land, the costs of entitlement (including costs for mitigating impacts to habitat), and that land's value as entitled property—enough room to forego one-fifth of land sales profits. This example also illustrates the value large landowner-developers place on an **expedited** process, where the typical timeline for converting land on the urban edge could be a decade or more. Similar calculations underlie community development proposals in Western Placer County that include donation of substantial acreage for college and university campuses.

The vigor of the housing market in Placer County is illustrated in **Figure 9**. The number of new homes sold each year increased steadily from the mid-1990s through 2003, at the same time that prices maintained record year-over-year increases. Analysts project continued population and economic growth in Placer County, although growth rates are likely to slow over the long-term and price increases will tend to moderate. Such expectations, however, fuel the substantial increase in values for entitled land and land that might have the potential for urbanization.

FIGURE 9
Trends in New Home Sales and New Home Prices, Placer County
(prices not adjusted for inflation)



SOURCE: Real Estate Research Council of Northern California, *Northern California Real Estate Report* , First Qtr. 2005 and 3rd Qtr. 2004, based on data from First American Real Estate Solutions.

PCCP one-time costs represent an investment in natural resource land and a transfer from the owners of development land to the owners of reserve land

Regional economic analysis categorizes the $1.3 billion to acquire interests in PCCP reserves as a transfer from land developer to landowner. In this analytical framework, there would be no "cost" or diminution of overall land value as a consequence of PCCP implementation. The $1.3 billion estimate to acquire PCCP reserves represents an estimate of the natural resource value of that land. Under the PCCP, the owners of potential reserve lands are provided a market from which to extract that resource value as they transfer property interests to the PCCP in return for monetary value, tax benefits, and/or mitigation credit. Under an aggressive conservation strategy, the resource value for scarce reserve lands is likely to be substantially higher than the underlying agricultural value.